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Venezuela

Coffee Annual

Annual Coffee Report

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Report Highlights:

Coffee production continues to fall due to a reduction in fruit bearing trees and lower yields resulting in a trend of rising coffee imports to meet a continued strong demand.

Executive Summary:

Several problems, including a lack of inputs, controlled prices and a disease outbreak have hastened the decline of the coffee sector in Venezuela. The country resorts to imports to meet domestic demand since domestic production is only able to supply 50 percent of the needs. Production for MY2013/14 is estimated at 700,000 bags and for MY2014/15 the crop is forecast to decline further to 660,000 bags. About 620,000 bags are estimated for MY2013/14, mainly from Nicaragua and other Central American countries. Imports for MY2014/15 should be around 685,000 bags to meet demand.

Commodities:

Coffee, Green

Production:**Crop Area**

Based on new information from industry contacts, area planted has been revised from 200,000 hectares to 180,000 hectares in MY2012/13. Planted area is expected to remain unchanged in MY2013/14 and MY2013/15 as farmers have few alternatives to switch to. Low profitability has caused the abandonment of thousands of hectares of coffee in the last several years. Failed government programs slated to increase tree plantings also contributed to the reduction in planted area. Area harvested also has declined and is currently calculated at about 160,000 hectares.

The primary coffee harvest is during the period October-January, but coffee plantations are distributed over a wide range of altitudes and regions in Venezuela, extending the harvest over ten months of the year. Most coffee is grown in the west and northern mountain area (Cordillera de los Andes and Cordillera de la Costa), particularly in the following states: Táchira, Mérida, Trujillo, Lara, Portuguesa, Monagas and Sucre.

Production

Production of green coffee continues to struggle as rising operating costs, lack of inputs and price regulations discourage farmers to maintain good farming practices. This leads to a reduction in coffee production per tree and negatively impacts bean quality. Venezuela no longer produces type A or Lavado Fino (finely washed coffee) coffee, and thus cannot compete in the international market. Coffee farmers were hopeful that the MY2013/14 crop would be better than previous years, but the lack of agricultural inputs, unrevised price controls and a serious coffee rust outbreak, resulted in production of about 700,000 bags, down over 12 percent from the previous forecast. According to government and private sector reports, coffee rust has been detected at a regional level, from Costa Rica to Peru. The outbreak of the disease represents a significant problem for Venezuela producers given the shortage of agrichemicals and other means to treat the disease.

Further reductions in production are now expected in MY2014/15, due to an unfavorable forecast of overall economic growth and possible worsening problems with disease. According to many farmers, previous planting intentions for new trees will be placed on hold, which in turn will impact future production. The MY2014/15 crop is forecast to decline to 660,000 bags, the lowest level of production since MY2010/11 when production was damaged due to untimely rains. (Note: the production number

reported by USDA for MY2012/13 was mistakenly reported at 600,000 bags instead of 730,000 bags). The expected decline in production does not reflect well on the health of the coffee sector over the long run.

In addition to a reduction in harvested area, coffee yields are also declining due to the reduction in fertilizer applications, bad weather and reduced cultural practices in caring for the coffee trees. Availability of labor is a major problem contributing to the decline in production and the reduction of area harvested. Controlled prices, along with bad government policies have also contributed to reduced coffee production. Coffee roasters are becoming increasingly concerned as the lack of farmer profitability has affected production practices resulting in a reduction of bean quality. In MY2013/14, as much as 70 percent of the beans harvested were classified as poor quality.

Consumption:

Total coffee consumption for MY2013/14 is estimated at 1,285 bags, and in MY2014/15 is forecast to increase to 1,290 bags. This strong consumption level is the result of subsidized prices and increased imports to ensure ample supplies. Per capita consumption is estimated at about 2.7 kilos per year, based on an estimated population of 28 million. Coffee consumption remains strong in spite of a declining economy due to price controls that keep relative coffee prices relatively low. In MY2013/14 domestic production is expected to cover approximately 54 percent of coffee consumption, with rising imports covering the rest.

Trade:

Coffee grown in Venezuela is largely consumed locally with some exported to Colombia due to the price differential that makes illegal trade attractive. These unofficial shipments are not only made up of green beans, but a growing volume, albeit small, of roasted ground coffee as well. This trade, however, is expected to be limited and could even decline as Venezuela's coffee quality continues to deteriorate. As coffee production declines, there is an increased need to import more coffee to make up the difference. The difference between locally produced coffee and imported coffee is expected to narrow such that imports will be greater than production by MY2014/15. The Venezuelan government imports all coffee that is then processed in government-owned roasters. Imports of green coffee come mainly from Brazil, Nicaragua and Honduras, which have favorable trading relations with Venezuela for political reason.

Stocks:

Ending stocks are expected to steadily fall over the short and medium term as profit margins continue to decline. This is a change from Post's previous estimates of higher stocks that were actually expected to rise before reports of disease issues and no relaxation in the price control policy. The government has reported that it is implementing an initiative to crackdown on expected hoarding and illegal sales of both green coffee and roasted coffee above controlled price levels. The government is estimated to control 80 to 85 percent of total coffee supply – made up of production and imports. Projected ending stocks for MY2013/14 are 22,000 bags well below the previous estimate, which by the end of MY2014/15 will become simply as a residual amount of approximately 4,000 bags – pending the success of government supply control measures.

Policy:

Pricing Policy

Coffee is a basic food item and included in the government's basic food basket. As such the price of coffee is controlled at both the farm gate and retail levels. In August 2013, the government approved a price increase for green coffee ranging between 37 and 66 percent, depending on the quality and bean classification. A bag (100 lbs.) of green coffee costs approximately 3,615 bolivars, which is about \$573/bag at the official exchange rate. The real price, however, is around \$72/bag. Farmers complained that the increase was below their cost of production and well below the level needed to make a reasonable return. Coffee retail prices have been controlled since 2003 and have not been adjusted since November 2012. A lobbying effort last year by processors to review coffee prices was unsuccessful. However, according to processors, there was a verbal, "gentleman's," understanding between processors and the government to allow retailers to raise prices above the official controlled price during the period February-May 2014. The government denies ever entering into such an agreement and is now accusing processors of speculation. The agreement was to sell a kilo of ground coffee in at 106.20 bolivars (\$16.86/kilo), much higher than the controlled price of 46.60 bolivars (\$7.40/kilo).

The government buys approximately 72 percent of the crop with the remaining 28 percent is purchased by the private industry. Under the expected scenario of the government controlling more and more coffee supply, in the future the industry will have to buy its coffee from the government at a reduced or subsidized price to sale it at the current controlled price. The concern is that the system is not sustainable, but before it collapses, coffee production will be eliminated and processors will have to purchase imported coffee at much higher prices.

Government Policy

Venezuela was once a coffee exporter that produced a highly desirable quality coffee. Today, however, the government policy, though not publicly announced, is to import Venezuela's coffee needs and ignore local production. The government blames price speculation and hoarding for the decline in production and the need to import to cover demand. In 2007, Venezuela started importing considerable amounts of green coffee from Brazil to be processed by state-owned roasting facilities. At that time, only a small portion of those imports went to government owned processors, Café Venezuela and Alba Products. It is estimated that currently 70 percent of Venezuelan roasting capacity is owned by the Government after the expropriation of several privately owned processors. In 2010, Nicaragua began exporting coffee to Venezuela and soon became the most important supplier, replacing Brazil. For Nicaragua, Venezuela is the second most important market after the United States. The change was the result of the Petro-Caribbean Agreement – which is an agreement to provide oil and its derivatives in exchange for food. In 2013, the Nicaraguan Export Center reported that Venezuela bought \$60 million of Nicaraguan coffee during the period January – November 2013.

The Venezuelan government consistently overestimates coffee production. However, after conducting a national survey of overall food supplies found and reported that there were significant coffee shortages and in some areas no coffee, in the interior of the country. In that regard, the Government blamed the shortages on the private sector's attempt to sabotage the coffee sector and destabilize the country. As a consequence of the evaluations and controls, some coffee roasters were penalized for having inventories considered too large.

Production, Supply and Demand Data Statistics:

Coffee, Green Venezuela	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

